RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

SINCE 1958 • REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION
POST OFFICE BOX 1759, LA JOLLA, CALIFORNIA 92038
26 LETTERS PER YEAR • $225 ANNUALLY

MARCH 6, 1985 LETTER 908

Feb. 22 DJIA 1275.84; PTI 1688; A-D Ratio -16.17
March 1 DJIA 1299.36; PTI 1700; A-D Ratio -15.90

THE PICTURE: The bull case for the stock market is easy enough to recite. In February, most of the major averages recorded new highs, including the D-J Industrials at 1297.92, the D-J Transports at 634.52, the S&P 500 at 205.79 and the NYSE Composite at 106.08. By any reckoning, a primary bull market was re-confirmed. Also re-confirming the move was a new high for my Primary Trend Index and for the advance-decline ratio.

Following the newly re-confirmed bull signal, the NYSE announced that the short interest had jumped an incredible 20% to a new record high. Allowing for all kinds of arbitration and hedging, the huge jump in the short interest in the face of record highs in the Averages has to be termed bullish. In effect, a record amount of stock is now positioned AGAINST the all-powerful primary trend of the market.

In my opinion, the most significant occurrence of last week, however, was the February 25 action of the advance-decline ratio. If you remember (see last Letter) I stated that the market was undergoing a "breadth stampede." I defined a stampede as any rise of five or more points in the A-D ratio without so much as a one-point intervening correction. On that definition, a breadth stampede started on December 13.

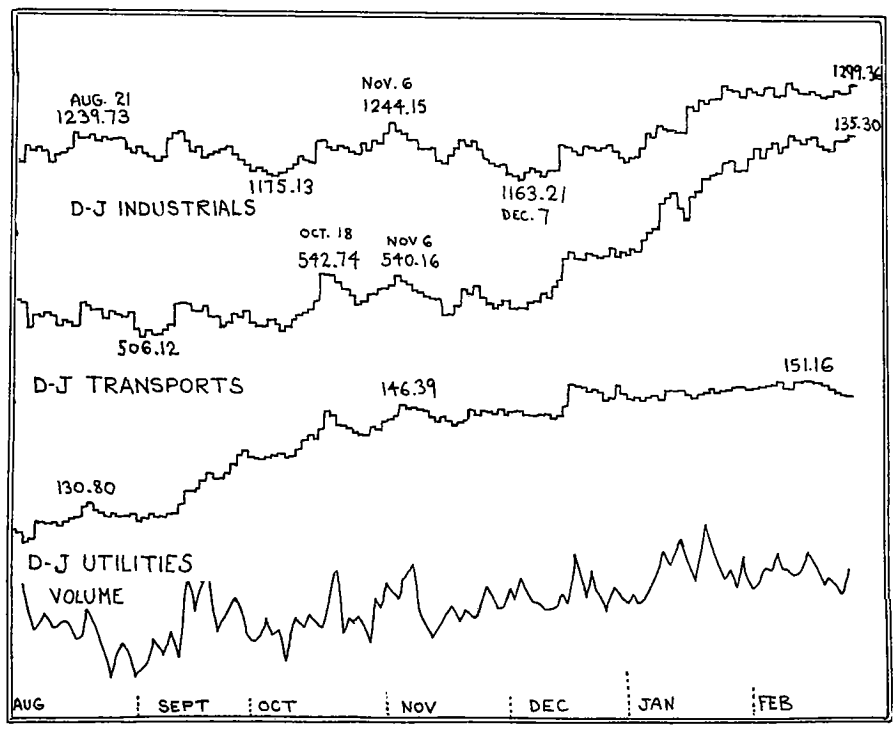
By February 13 the A-D ratio reached a high of minus 15.46. A decline ensued. On February 25 the A-D ratio recorded a figure of minus 16.48. This represented a full one point drop from the February peak. thus, the first breadth stampede has ended.

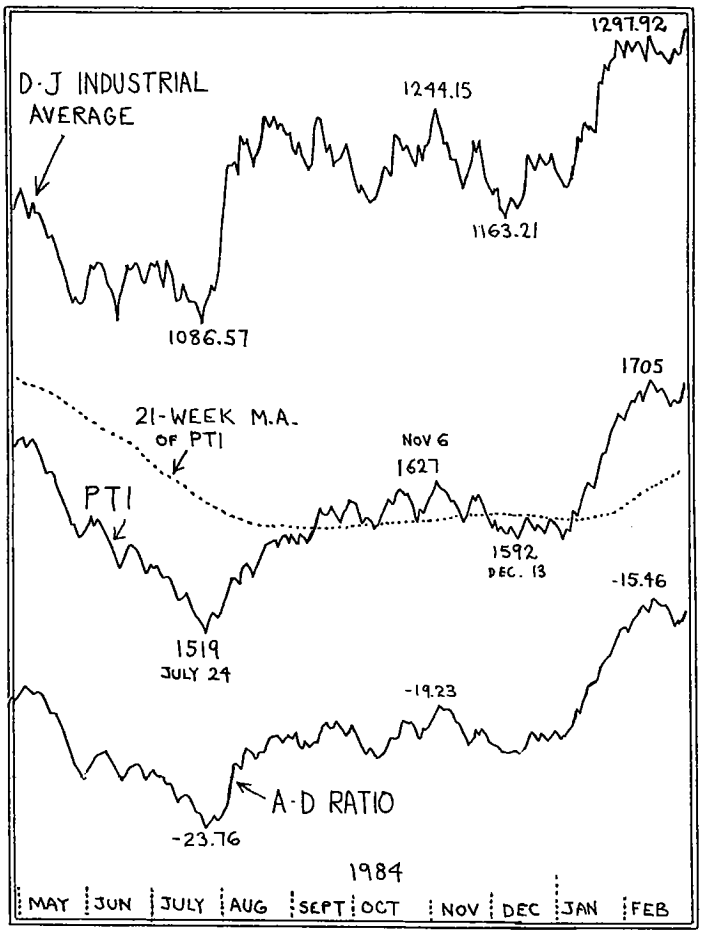
The 1985 breadth stampede barely qualified in that it was just over five points in the A-D ratio. In comparison, the 1980 stampede was twice as big--10 points on the A-D ratio. The 1982 stampede also took the A-D ratio up a full 10 points. Thus, the 1985 stampede qualifies as a minimum stampede, but subscribers might remember that breadth stampedes of the past have tended to come in clusters. Thus, it is possible that a second stampede could start somewhere ahead.

I want to discuss one technical factor that has kept me from being all-out bullish. It is this: The A-D then smashed over 11 points to a final low of minus 23.76 in July 1984. From there the A-D rallied, reaching the recent high of minus 15.46 on February 13, 1985. But note that this high was 3.12 points below the June 1983 high--even though the D-J Industrial average was at a new record high. This constitutes a major non-confirmation, and it could bring on trouble, particularly if the A-D starts fading badly at this time.

At this point, I feel that the thing to watch is the action of the Averages in relation to the A-D ratio and the PTI. If there is to be any trouble from here, it will be seen in divergent action with the A-D ratio lagging while the Dow pushes to new record highs. Since the Dow is hovering close to its February 13 peak of 1297.92, my feeling is that a new record high above 1300 should be easy to attain. The big question if that occurs is--will the A-D ratio confirm, or will there be a price/breadth divergence? Almost all trouble following breadth stampedes and following new highs in the Averages BEGINS with periods of price/breadth divergence.

BACKGROUND: The old Wall Street adage states that "a bull market climbs a wall of worry." Let's hope the adage works, because few bull markets have ever had a clearer worry wall to climb than this one. In the last Letter I pinpointed five commodity items that appeared poised to break out on the upside and I gave the upside breakout points. Not one of those items (gold, silver, palladium, copper, oil) broke out on the upside. Instead, a commodity blood bath took place on February 25. That day saw gold smash to its lowest point since late-1979, silver plunge to 5.54, copper, palladium, platinum, lumber, beans you name it, all the commodities skidded towards the cellar. Even more





spectacular was the collapse in the currencies. It was veritable panic to move out of everything and into dollars.

If my subscribers have listened to me they own little if any gold. So I'm not worried about the effect of the crash in the metals on our portfolios. But gold is the barometer of inflation/deflation, and on that basis the break by gold below its critical 295 support low gives us something to ponder. On a cold reading of the gold barometer, the market appears to be telling us that the inflation/deflation balance may be tipping towards deflation.

"So what," you retort, "the US has almost been ruined by 40 years of inflation. Therefore, a little deflation should be welcomed at this time." A lovely thought, but older subscribers may remember my warning repeated many times in this Letter. What I said was that there is a total of roughly $5.9 trillion of debt (federal, state, city, personal, corporate) in the US. Carrying that debt entails interest payments of roughly $600 billion a year. That massive carrying charge has been floated by decades of inflation.

But what happens if deflation now takes hold? What happens if that little debt you owe, say $15,000, that debt that was so easy to handle in an inflationary environment, becomes subject to deflation? What happens is that in a deflationary environment debts loom larger and larger, and a debt that appears easy to carry during inflation becomes utterly impossible to carry during deflation.

We can see some of the results of deflation (or lack of inflation) already. The Texas "big rich" are starting to hurt. The Hunts have lost most of their fortune in the deflation of silver, oil and sugar. Clint Murchison, once valued at a quarter of a billion dollars, has filed for Chapter 11. And last week T. Cullen Davis, another fabled Texan, found himself in bankruptcy court. These men thrived in an inflationary environment. Without inflation, they have run into a brick wall.

The US is now caught on the horns of an incredible financial dilemma. On the one hand, the strong dollar and the collapsing commodities bespeak of deflation. On the other hand, the dollar is now at such a lofty level that it would seem only a matter of time before it topples. When it does topple, the drop will release inflationary forces. Unless, of course, the tumble sets off a run on the dollar and a mass exit of foreign money, in which case all bets are off, and our Treasury will have the time of its life financing the ballooning US deficits.

INVESTMENT POSITION: The bull is in the box. The primary trend of the stock market remains up, and actually this stock market has absorbed a lot of frightening news and absorbed it very nicely. The PTI is holding well above its 21-week moving average, and the most-active stock index (plurality of the 15 most active stocks) keeps pushing to new highs, showing the path of big money. So we sit definitely with our stocks.

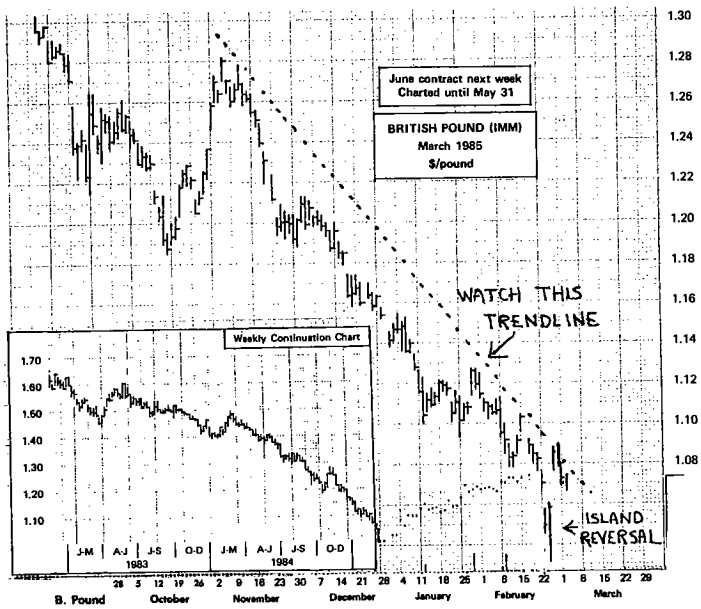
The bonds are another story. I've received my first sell signal on the bonds, and subscribers have a right now to lighten up on bonds or even step aside. If the dollar weakens, we could see pressure on bonds as foreigners move to the exits.

The food stocks act well here, and I'm talking about Nabisco, General Foods, General Mills, Kellogg. I also like American Home Products and American Brands. Exxon represents real value in the oil issues with a 7% yield and a well-covered dividend. With oil out of favor, I feel that Exxon now represents an outstanding chance to buy a stock that will hold up under deflation and keep up if inflation picks up again. I also have reason to believe that Exxon is now being bought by some of the smartest minds in the investment business.

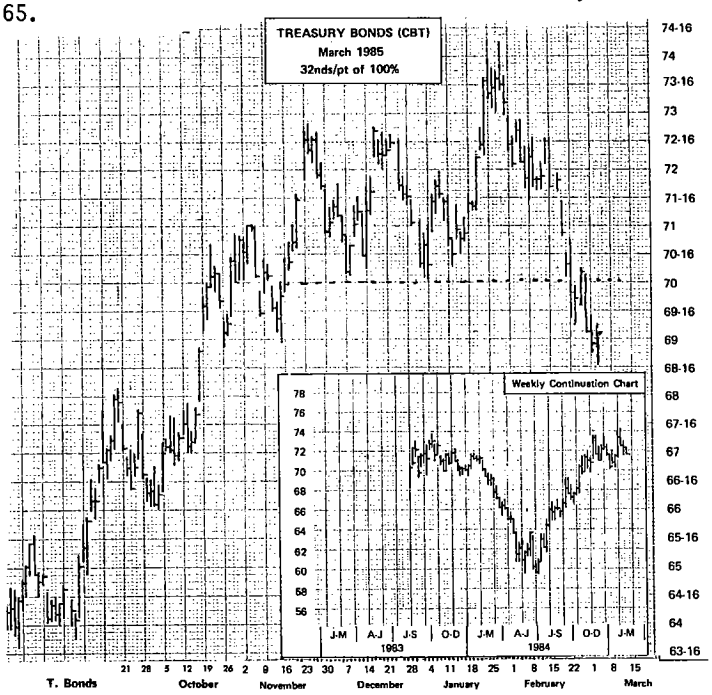
THE TURN? Nothing is more important in markets than major (primary) reversals. And, of course, the place everyone is now watching is the dollar and the foreign currencies. This chart of the British pound (page 3) is very interesting. After collapsing all through 1983 and '84, the pound on February 25 and 26 plunged below 1.04 to an historic low against the dollar. Note the huge gap formed by that two-day plunge. On February 27 the pound reversed, surging up to 1.09 and thereby forming what is known as an "island reversal." The island is a two-day low, based on the panic action of February 25 and 26.

Many major turns occur on island reversal panic lows, and the 1.03 pound could conceivably represent THE low (and conversely the peak for the dollar). Time will tell, and the pound could now consolidate, but 1.03 will stand as the low for the pound (in my mind) until or unless that 1.03 low is broken.

The second page 3 chart (both charts courtesy of Dunn & Hargitt, 22 N. 2nd Street, Lafayette, IN



47902) shows the March T-bond futures breaking support at 70, a level that I have written about for a few months. To me, the bonds now look very toppy since they have broken to their lowest level since last November. Normally, even if this is just a correction, I would expect the March bonds to drop to around the 67-68 level. If this is a major turn, of course, then the bonds will, in time, break the 1984 lows just below 65.

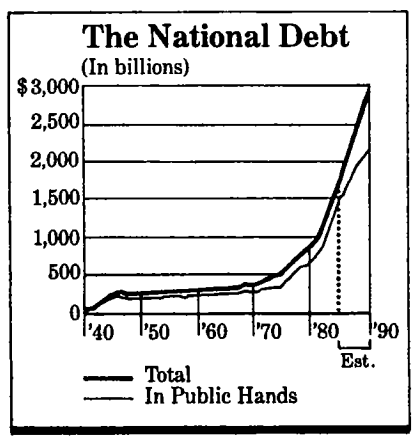


THOUGHTS: We are now embarked on the best advertised bull market in history. I saw Stan Weinstein ("Professional Tape Reader") on Wall Street Week (February 2), and Stan was all-out bullish. Next day I received Barron's (Feb. 4 issue), and the cover cried out, "Holy Cow, Is This Bull Market for Real?" The article pretty much concluded that the bull market is very much for real. In the same issue of Barron's Marty Zweig wrote that the recent Fed action together with NYSE tape action provides an explosive market mix. Marty tabulated ten of these previous "double-barreled buys" and showed where 12 months after such buy the unweighted index was up an average of 53.6%. Nor has there ever been a failure when both the Fed and the breadth agreed. In the same issue of Barron's Paine Webber proclaimed in a large ad that they "called this bull market on December 18, 1984." Again in the same issue of Barron's (in a long interview) Walter Heller stated that "...this ought to be a very positive year, and I've been saying so." On February 4 in a large WSJ advertisement, Shearson Lehman ventured that the Dow might go to the middle 1400's this year. Bob Prechter is looking for something above 3,000 in the Dow before this bull market breathes its last. Ian McAvity is bullish, Bob Gross is bullish, Bob Nurock is bullish, Market Logic is bullish, the Bank Credit Analyst is bullish, AND frankly, just about everyone I read is bullish. Does that mean that we can't have a bull market? Heck no, but in my opinion, it all sounds kind of pat and easy.

I guess after watching markets for over thirty years I've developed what I like to think of as a healthy skepticism. At any rate, when everything seems too predictable, I start worrying. So I thought I'd write down some of my worries for my own clarification and for the interest of my subscribers. Here goes.

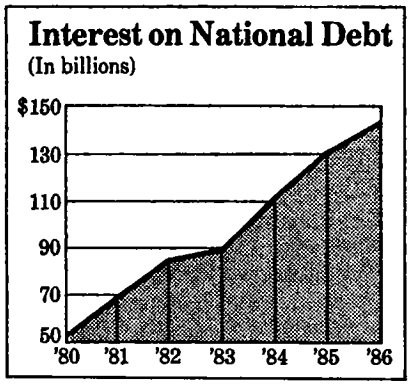
Never before has the US had to deal with anything like the current debt, deficit and balance-of-payment situation. In fact, so wild, so unprecedented is the debt/deficit situation that I believe that we are entitled to be somewhat skeptical of all previous and accepted methods of market forecasting. The fact that the US is now eating itself up alive with deficits casts a whole new light on the US financial markets and the US economy.

Consider this: at the end of fiscal 1981 the federal debt stood at $794 billion. That equalled about 27% of the nation's economic output that year. At the end of fiscal 1986 it is estimated that the federal debt will be over $1.7 trillion. That would equal 40% of the nation's total output or GNP. The fact is that the federal debt is racing toward parity with the total GNP. This little chart from the WSJ shows that by 1990 (as matters now stand) the total Federal debt could be pushing $3 trillion. The implications of such an explosion in federal debt are mind-blowing.



I have warned about the danger of compounding debt time after time over the past five years. This little tabulation shows you what has occurred in interest on the federal debt since 1976. Note that interest costs doubled between 1976 and 1980. Between 1980 and 1984 interest cost doubled again! The second little chart shows you the trend of interest on the debt. Maybe this will better illustrate what has happened to interest costs: in fiscal 1986 the interest on the federal debt will EXCEED the cost of energy, natural

Year	Interest Expense
1976	$ 37.1
1977	41.9
1978	48.7
1979	59.8
1980	74.9
1981	95.6
1982	117.4
1983	133.2
1984	153.8



resources, agriculture, transportation, education, veterans and foreign aid programs COMBINED!

Right now Mr. Reagan is pushing (along with Cap Weinberger) for his huge military program. Most of the spending is already in place for the $313 billion program. The program will grow to $401 billion in 1988 and $438 billion in 1989. It will be very difficult to cut this program significantly, and you can be sure that Weinberger will fight any cuts tooth and nail.

As far as non-military cuts are concerned, there will probably be about $35 to maybe $50 billion of cuts in this area, but these will not be easy to get through Congress. Assuming all the proposed cuts go through and assuming no accidents, the 1985-86 deficit will be about $180 billion. That is probably an optimistic figure.

Here is where we come to the difficult part of the picture. The US is in a position where any recession would be disastrous. Any severe recession would drop the government's tax take drastically, and if that happened the budget deficit would soar off into space--to maybe the $300 to $400 billion area. At the same time, if we experience a recession the pressure will be on for the government to spend more--not less. And raising taxes during a recession is well nigh impossible.

What this means is that the nation has now painted itself into a corner whereby it just "can't have" a recession. Unfortunately, neither the markets nor the economy operate on wishes or hopes. They run on human emotions, cycles and facts. Thus, the horrendous build-up of debt during the last decade has placed the US in a sort of financial straightjacket. The economy has no elasticity, no room to maneuver if the economic reverses strike.

Yet another problem faces the country. A large part of the US deficits (about 15%) have been financed by foreign buying. The foreign buying of US debt has been stimulated by (1) high yields on US Treasury debt, (2) the strong dollar, (3) the stability and prosperity of the US economy. But all this too could change, particularly if the US suffers a recession.

If a recession hits, I would expect (1) the dollar to top out, (2) a reverse flow of funds OUT of Treasury securities and back into foreign securities, (3) higher interest rates as the Treasury takes on all comers in its efforts to sell the swelling US debt. Thus, any recession could present the US with the worst of all worlds, rising interest rates, new record high deficits, and a reverse flow out of Treasury securities.

This whole situation has been brought on by the mindless disregard of federal deficits. The fact is that the US government is only paying for roughly 80% of what it spends each year--the rest is borrowed. Such practice can only lead to (1) a financial crisis plus a massive lowering of living standards through higher taxes, diminished government benefits and deflation, or (2) all out government inflation as the Fed seeks to print the deficits away. This too would give rise to a lowered standard of living through higher interest rates and wipe out savings through inflation. The (3) final possibility would be government controls of almost all financial entities and national emergency conditions as the government tried to manipulate a seemingly impossible situation in the economy and in the markets.

Now here's the most curious phenomenon of all. In the face of all the above, I sense very little concern or real interest on the part of the public. There's a euphoria in the air, and people are more interested in rolling with the good times than they are in sacrificing to halt the debt explosion. I suspect that part of the euphoria has been brought on by the low inflation figures, part has been set off by the strong dollar. A lot of the glow has also been triggered by Mr. Reagan's confident, up-beat manner. In fact, Reagan has taken on an almost magic aura, so much so that the Democratic party has been thrown into a mood of passive, grudging silence. In all, an amazing situation, but not one conducive to taking strong action.

UNIQUE STOCKS: There are three very unique stocks that I want to write up. I'm not sure if I've seen any of them written up before, and I'm going to do one in this Letter and one in each of the next two Letters.

What is the "safest" security in the US? In my opinion, it is probably the cumulative preferred stock of Tri-Continental Corp. Tri-Continental (TY on the NYSE) is the largest closed-end holding company on the Big Board (assets just over $1 billion). TY has been around since 1929; the company weathered the Great Depression. TY holds a high-class group of stocks and some bonds; TY's biggest holdings are IBM, Motorola, Hewlett Packard, Sears, Associated Dry Goods, DuPont.

Total dividends and interest income for Tri-Continental Corp. during 1983 was $41.7 million. Remember that figure, $41.7 million (it was higher in 1984).

All right, now TY has NO BONDS outstanding. But IN FRONT of all the TY common stock is a small issue of cumulative preferred stock, 752,000 shares to be exact. The dividend on the preferred is $2.50 a year so that TY must pay out a total of $1.9 million a year on the preferred before the common holders can receive anything. In other words, Tri-Continental Corp. receives over $40 million a year in income, and the preferred stock is entitled to $1.9 million right off the top. THAT'S WHAT I CALL PROTECTION.

Furthermore, the preferred issue is cumulative so that if there is some huge economic catastrophe and the company receives no income, if all those blue chip stocks (and bonds) don't bring in enough to cover the preferred dividends, then when business picks up and the money starts coming in again, the holders of the preferred receive all the back dividends that they may have missed!

The TY prefered is now around 24 to yield 10.4%. It is redeemable at $55 which means that if the company ever wants to call in the preferred, you would double your money at today's price.

The preferred of TY is a good holding for corporations, since corporations pay only 15% taxes on the dividends of common or preferred stock (whereas a corporation holding a bond pays full tax on the bond income).

So that's the story on TY preferred. I feel the issue is as safe as America. There is no other stock like it for safety, and it is (in my mind) as safe or safer than a Treasury bond (since TY preferred is backed by real assets and huge earning power, while the Treasury bonds are backed by the power to tax or print money).

A warning: TY preferred is very thinly traded. It should only be purchased for long-term holders or corporations who want safe income. It must be bought or sold carefully over a period of time (Dow Theory Letters holds a position in TY preferred).

NOTES & QUOTES: I haven't been doing much speaking of late, mainly because it usually knocks three days or more off my schedule, and it's too much sweat making up for lost time. However, I will be speaking at Howard Ruff's big Seminar in Anaheim, March 14 through 16. A lot of excellent speakers will be there including Arnaud DeBorchgrave ("The Spike"), R.E. McMaster, Gary North, James Dines, Mark Skousen, Nicholas Deak, Ian McAvity and others. Many of these fellows are buddies of mine from way back, and I can tell you that they are fascinating speakers. Cost is $195 per person or $315 per couple (1 800 321 5307 in Calif., 1 800 227 2446 everywhere else).

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Oil: In recent Letters (chart Letters 906 and 907) I stated that despite what everybody was saying, oil looked on the bullish side. The chart in the last Letter included the March crude oil contract, and if you've been short on oil lately, you've been losing your shirt! My friends at Growth Stock Outlook (PO Box 15381, Chevy Chase, MD 20815) picked up this quote from Charlie Maxwell of C. J. Lawrence. Maxwell is one of the very top oil analysts in the country, and this contrary opinion fits in very well with the crude oil chart:

"If OPEC cannot be broken in its price-maintaining role by the last quarter of 1986, the odds rise quickly that it will not be broken at all on this cycle. Most OPEC members (excepting the five Arab producers in the Gulf), the U.S., the U.S.S.R., and the majority of European and South American producing countries during this period are either close to maximum oil output, or on a downward slope, at least in terms of production over the next 15 years. Replacement of reserves is not proceeding well. A period of gradually tightening oil supplies is now becoming visible for the early 1990's. More importantly, incremental production capability is set to become concentrated in the hands of a few major exporters. Nothing short of a technological revolution in energy production could change the outlook – and this is unlikely."

"By 1987 or 1988, we would expect oil share markets to be looking forward to a long-term tightening of supplies, and thus be able to foresee future rises in the price of oil above the rate of inflation – the signal of a bull market in oil shares.

"Investors must be patient. There are some exceptional gains to be made in energy investments later in the cycle, but only if we can get through the existing period of oversupply with our buying power intact.

"We may not have to wait two years – it may be a matter of months before opportunity knocks. If events should force an earlier slide in the price, and a new base could be found at, say, $22–$26 per bbl, energy shares may be at the bargain levels of the decade in terms of their relative market valuation."

Exxon is a long-term holding for those who have faith in oil, and it's a stock with great management, good cash flow and a decent yield. Petroleum Resources is a closed end company which holds a cross section of good oil stocks. It trades on the NYSE and is currently just above its 1982 low of 23 3/4.

* *

Nobody wants to talk about it, but the real trouble with the military (and one of the main reasons for the ghastly expenses) is the fact that the US military is an uncoordinated, service-disoriented mess. Most of the time one service does not know what the other is doing. Many of the concepts are antiquated, and each service battles for its own power structure, no matter whether it is useful in modern warfare or not. A fascinating article in the February 21 NY Times by Edward Luttwak (author of the forthcoming book, "The Pentagon and the Art of War") points out the problem:

There is no lack of consensus, Yet Congress is still unable to agree on the budget. Why? The real obstacle to effective oversight is a fundamental defect in the structure of the military — in a Pentagon where the Army, Navy, Air Force and Marines are each very powerful, while the Joint Chiefs of Staff are merely a weak coordinating committee. As a result, funds are rarely allocated for specific kinds of combat forces but rather shared out among the services, each of which is free to use the money according to its own priorities.

The Navy, for example, seeks a 600-ship fleet without a strategic rationale. The Marines are devoted to amphibious forces of dubious value for today's warfare. For the pilot-dominated Air Force, it is manned aircraft that count — and badly needed conventional missiles go unbuilt. As for the Army, it insists on retaining its role in preparing ballistic missile defenses — a role better suited to the Air Force.

Each separate service pays for a variety of forces, many of which overlap with those of other services. The totality is largely unplanned and uncoordinated — and it corresponds to no coherent strategy at all. No wonder Congress has trouble comparing our forces and our goals.

* *

Barron's (Feb. 25) has a great article by Warren Buffet, a man often mentioned in these Letters. Buffet recites the history of some of the early followers of Benjamin Graham, "father of value analysis" (who incidentally spent many years of his life here in La Jolla). Buffet states that he doesn't care whether he buys a stock in January or July as long as it meets his test of values. In other words, he looks for discrepancies between value and market price. This is in sharp contrast to the technical approach, which I feel is becoming almost too popular today.

Because of current high interest rates, I personally have opted (in my own accounts) for compounding, the safest and surest way of making money. Gains under compounding are not as spectacular as great timing or great fundamental investing. But to my mind every investment era has its outstanding feature. My feeling is that record real rates of return are the bargain of the current era. Consider this: many high-grade non-taxable muni bonds provide a real return (interest minus today's almost zero inflation) of over 9%. Barron's 20-Bond Average provides a return of over 12%. That's awfully attractive considering the safety feature.

* *

Some months ago I wrote that the taxes tend to go where the money is. Well the money, the real money, is now in pension plans. So the new Treasury tax-reform bill contains the following: (1) elimination of the 401(k) plans, (2) eliminates 10-year forward averaging when you close your pension plan down, (3) adds a penalty tax on preretirement distributions.

* *

Quote of the week: "I think we will see an era of superpowers in institutional international competition. The walls between banking, insurance and brokerage will crumble. And competition will be international. The large players will be Citibank, Sears, American Express, maybe American Can or Security Pacific, BankAmerica, AT&T and IBM and large German and French banks and Japanese trading houses." (Jeffrey Lane, chief operating officer of Shearson)

* *

If you want a fantastic insight into Russia today, read Arkady Shevchenko's new book, "Breaking with Moscow" (part of it featured recently in Time magazine). Shevchenko was the senior official at the UN from 1973 to 1978 when he defected. His story is both fascinating and frightening. The author provides a firsthand, chilling look at the rulers of one of the most tyrannical governments in the history of man.

"Sex & Money" by John Spooner (Houghton Mifflin) is a great, informative and amusing view of what goes on (behind the scenes) at the brokerage houses. I really got a kick out of this new book, and I learned a few things as well. Spooner is senior vice president of Shearson Lehman and is author of the classic, "Confessions of a Stockbroker."

* *

Letters from subscribers continue to pile up here, and I answer as many as I am able. Many have written for the address of the Kloss TV which I raved about. Kloss Video is at 145 Cambridge St., Cambridge, MA 02139. A South African writes to suggest that the US adopt S. Africa as the 51st state. He says, "Certainly the mineral wealth and strategic location of S. Africa are important to the security of the US and the West, and with the depreciated rand now worth only 30% of its former value this would appear to be a most attractive purchase -- almost a bargain!" My comment: I'm not even sure that Jesse Jackson would go along with this suggestion. From Sidney, Ohio, comes a nice letter from a fellow who writes, "I have just learned that for over one-third of my life, I have been reading Richard Russell. Enclosed are the documents to substantiate the truth." And this gentleman sends me a copy of a 1959 Letter of mine. What can I say except -- if you can take me for 26 years, you're ready for anything.

And still another subscriber (a dentist) asks, "What happened to your fail safe theory?" He is alluding to my 13- and 50-week moving averages of the Dow. My answer: hold tight, I just spent $19,000 on a most advanced Hewlett Packard computer setup, and I'm going to be presenting subscribers with a wealth of new information. It will take time, but I think the computer will be extremely helpful. Speaking of computers, remember my comments a few Letters back about the Russians not allowing their citizens to have computers. Looks like this is changing, as the Russkies are now preparing large orders to Apple and IBM for personal computers. Those Russians don't want to be left behind, and we want that Russian gold.

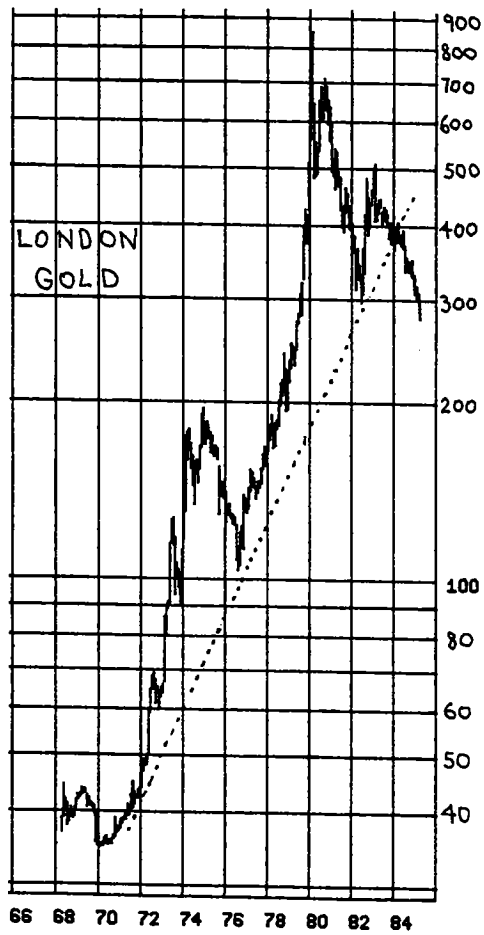
GOLD: I am torn between including a daily chart of gold or a longer term chart. I think this monthly chart of the metal gives us a more comprehensive picture of what has happened.

I included this chart in Letter 903 (Dec. 27) with a warning of what might lie ahead. I noted that the rate of precious metal growth ended when gold broke below its long rising trendline, a trendline that held from 1970 to 1983. In early 1984 gold broke below the long-term growth (or inflation) trendline, and that being the case, the next checkpoint was the 295 low of 1982.

Last week the 295 low was broken as gold plunged below 290. Anyone who is bullish (or hopeful) on the metals had to be somewhat discouraged when during one day last week the foreign currencies exploded on the upside and gold and silver barely budged. The expectation has been that on any hint of the turn in the currencies, gold and silver would take off.

My own feeling about the precious metals is that they are still caught in the grip of the bear or (at best) they may be trying to form some kind of a bottom. But my gold/common stock ratio broke last week to another multi-year low, and such action has never been associated with a bull market in precious metals.

I've been mulling the whole gold/currency/commodity picture, and here is a guess I am going to reveal to my subscribers. I believe that when the dollar finally tops out, when the non-dollar currencies finally turn strong, foreigners may simply sell their gold and move into their own currencies. For instance, I think the yen and the Swiss franc may turn out to be a much better "anti-dollar" hedge than gold (remember, the currencies offer a return and gold does not. And the world needs income today. It needs income to pay off its ever-burgeoning debt).



LATE NOTES: The stock market ended the week (March 1) with the D-J Industrials and Transports again at simultaneous record highs. From a Dow Theory standpoint, the most powerful Dow signals occur when both Averages break into new primary high ground together, and this is the second time this has occurred in the last few weeks. The A-D ratio (page 2 chart) is lagging slightly, but we have to give it the benefit of the doubt. As for the bonds, I would say that they have definitely topped out. Short interest rates have popped with the bills just under 9%. Watch the metals now -- for hints of inflation. The gold stocks look as if they can't wait to go higher.

NEXT MAILING: March 20